Examiner's Amendment

1.   **(currently amended)** A method implemented on a computer for pricing a financial derivative of a non-marketed variable x_e, the method comprising:

retrieving from a storage medium into memory of the computer information associated with the non-marketed variable x_e, and a market representative x_m, wherein the market representative x_m is useful in determining a value of the financial derivative;

calculating on the computer a solution to an equation involving a price of the financial derivative $V(x_e, t)$ defined as a function of x_e and time t, wherein the equation comprises a coefficient involving the information associated with x_e and x_m; and

generating on the computer an output including the calculated price of the financial derivative;

wherein the information associated with x_e and x_m comprises a drift rate of the non-marketed variable x_e, and a drift rate of the market representative x_m;

wherein the information associated with x_e and x_m <u>further</u> comprises variances of the non-marketed variable x_e and the market representative x_m, and a covariance between the non-marketed variable x_e and the market representative x_m;

wherein the coefficient involving the information associated with x_e and x_m has the form $\mu_e - \beta_{em} (\mu_m - r)$, where μ_e is a drift rate of the non-marketed variable x_e, μ_m is a drift rate of the market representative x_m, and β_{em} is a factor derived from a variance of the market representative x_m and a covariance between the non-marketed variable x_e and the market representative x_m;

wherein the market representative x_m comprises a marketed asset or combination of such assets that is approximately most correlated with the non-marketed variable x_e;

wherein the equation is an extended Black-Scholes equation obtained from a standard Black-Scholes equation by replacing, in a term involving a first-order partial derivative of $V(x_e, t)$ with respect to x_e, a coefficient r, representing an interest rate, by the coefficient involving the information associated with x_e and x_m.